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SUBJECT: Mexico Economic Weekly - April 20

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE:

13. (SBU) MEXICO STILL HAS FURTHER TO FALL: Miguel Martinez, the CEO of financial services firm BASE, believes that the Mexican economy still has not bottomed out. Econoffs met with Martinez on April 13 and he argues that as Mexico is the source of many second order inputs, such as car parts, the full effects of falling sales in the United States have not yet hit. Martinez said Mexico is lagging the U.S. recession by about a year and will not fully recover until late 2010 or sometime in 2011. Also weighing heavily on the Mexican economy is the high and uncertain price of the peso. The peso value has fallen dramatically in relation to the dollar despite a +6 to 7 point spread between Mexican and U.S. short term government bonds. In Nuevo Leon, the recession is already having a deeper than expected impact on Nuevo Leon state finances. Payroll taxes, which represent 30% of the state's revenue, have fallen far more than forecasted and will cause the state to readjust its

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finances. (Monterrey)

14. (U) FALLING SALES IN TIJUANA: Merchants in eastern Tijuana, declared that sales were down by fifty percent, partly because of closures of streets and roads. Slow work on road repairs is believed to be the factor compounding the difficulties of an already-stressed economy in Tijuana. (Tijuana)

15. (U) STATE GOVERNMENT OFFERS FINANCIAL SUPPORT: The governor of Baja California, Jose Guadalupe Osuna Millan provided economical support to the shelter homes in the State. More than 500 people benefited from the money given by the State Government and the Secretary of State for Social Development (SEDESOE). Benefited shelters include: Casa del Migrante and Casa Matriz. (Tijuana)

16. (U) BORDER COMPANIES AFFECTED BY ECONOMIC CRISIS: Industrial manufacturers expressed concern due to the possibility that the resources offered by the Secretary of Economy through the PRODIAT-Program Development of High-Tech Industries will be given until the companies conclude their technical slowdowns (paros tecnicos). The Vice President of the Association of Border Maquiladoras, Mr. Humberto Rodriguez Jaramillo reported that 25 companies in the border region are already under this "work stoppage" program; out of these, 10 are located in Baja California. As for the risk of companies shutting operations, Mr. Rodriguez commented: "few companies have closed, they are either seeking to consolidate their operations or attain additional budget to avoid cutting staff." (Tijuana)

TRADE AND INVESTMENT:

17. (U) MEXICAN GOVERNMENT STEPS IN TO HELP VITRO: On April 8, Vitro stock jumped 30% based on a strong expectation that the Mexican government will step in and provide a line of credit to the struggling glass maker. Earlier this year the company had already announced that it would suspend its debt payments, and the credit rating agency Moody's withdrew its rating for the company until Vitro completed its restructuring. The company has nearly 15,000 employees and the Calderon administration is reluctant to let such a large employer fail. Vitro was unable to restructure its 1.8

billion debt in the private market due to large derivative losses incurred in 2008 which put the viability of the company in doubt. Similarly, the cement company Cemex has also had difficulty restructuring its debt load and there is speculation the Mexican government will need to intervene soon. Across Mexico, 9,000 businesses have closed in the last five months representing a loss of over 524,000 jobs. (Monterrey)

18. (U) TEQUILA EXPORTS INCREASING IN 2009: After exporting a near record 137 million liters of tequila in 2008, Mexico saw a 2.62% rise in exports in the first quarter of 2009. Tequila exports continue to grow to the U.S. and although 68% of exports head there, Mexico sees the greatest opportunity for growth in Asia. The Consejo Regulador del Tequila is currently studying the possibility of opening an office in Shanghai to capitalize on China's newfound taste for Mexico's national drink. (Guadalajara)

19. (U) FIRE AT INDUSTRIAL PARK DESTROYS THREE MAQUILADORAS: On April 7, a fire broke out at an industrial park located directly across the highway from the Juarez International Airport. The fire destroyed property owned by three international maquiladoras. The affected companies included MCS de Mexico, the Taiwan-based technology group, Foxconn, and the Swedish-owned Dometic. According to the Director of the Juarez Financial Development Office, Alvaro Navarro Garate, approximately 600 employees from MCS de Mexico and Dometic temporarily lost their jobs as a result of the fire. He explained that the companies plan to re-hire their employees once the factories resume operations. MCS de Mexico and Dometic are currently in negotiations with their employees to determine the appropriate compensation packages for the period they will be laid-off. FoxConn reportedly salvaged its production line equipment from the factory before it burned, and has moved its production and the 800 affected employees to another plant on the outskirts of Juarez. (Ciudad Juarez)

10. (U) UTB TO BEGIN MBA CLASSES IN MEXICO: The University of Texas-Brownsville (UTB) announced at the monthly meeting of the Matamoros Maquiladora Association (AMMAC) that it would begin offering some of its MBA courses at the AMMAC facility in Matamoros beginning this fall. According to UTB business professor Tom Coyle,

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the goal is to offer maquiladora employees more flexibility, particularly for Mexican employees who may be deterred from the program due to scheduling and long waits at international bridges. In addition to special tuition rates for Mexican residents, special links between the University and AMMAC for graduate certifications, and other similar programs, this is one of the first that will actually include UTB graduate classes being taught in Mexico. (Matamoros)

ENERGY

11. (U) MEXICAN PETROL RISES AGAIN: Ramiro Zuniga Salazar, president of the Association of Owners of Petrol Stations (ONEXPO Baja), reported Tuesday that gasoline prices had risen from 9.12 pesos per liter to 9.21, an increase of 9 cents. Also, diesel has risen more than 28% so far this year, and is now selling at 7.46 pesos per liter, as opposed to its April, 2008 price of 5.7/liter. Diesel prices are expected to rise an additional five cents again early May as part of an adjustment for the month by the Ministry of Finance. (Tijuana)

LABOR

12. (U) JALISCO CREATES JOBS IN MARCH: On the heels of losing 11,000 jobs in January and February the state of Jalisco created 4,124 jobs in March, according to the Secretary of Labor and Social Security. That figure makes Jalisco the state with the second most jobs created last month, behind only Veracruz. Of the job gains in Jalisco roughly 60% were part-time positions. Analysts believe that the gains could be attributed in great part to a part-time worker

program organized between the state government and various municipalities that gives the unemployed jobs in landscaping and public works, among other employment opportunities. (Guadalajara)

¶13. (U) MEXICAN EMPLOYERS ARE MOVING TO THE U.S.: On Tuesday, March 31st, the president of the Employer's Confederation of Mexico (Coparmex), Ricardo Gonzales, said that Mexican employers from border cities have migrated to the United States due the security situation, threats and extortion attempts. Coparmex has documented a significant number of businessmen in the border cities of Tijuana and Ciudad Juarez who have moved to locations in San Diego and El Paso in the United States. (Tijuana)

¶14. (U) PACE OF STATE JOB LOSSES DECELERATES: In March, Chihuahua's labor market lost 6,243 formal sector jobs, according to the Mexican Social Security Institute (IMSS). This latest report follows a six month period in which the state lost a total of 70,000 formal sector jobs, primarily in the manufacturing sector. With these latest losses, total statewide formal sector employment stood at 596,000 at the end of March 2009. Manuel Ochoa, Vice President for the El Paso Regional Economic Development Corporation, forecasts that manufacturing activity in Chihuahua will begin to improve by the third quarter of this year. The lower number of job losses in March raises the specter that labor market conditions may already be stabilizing. Nonetheless, local economists contend that more investment will be required for the labor market to return to peak employment levels reached in late 2000. The maquila industry, in particular, made significant productivity gains in response to the 2001 crisis. As such, at current production capacity levels, the industry is less labor intensive than it was ten years ago. (Ciudad Juarez)

TOURISM

¶15. (U) LESS TOURISTS IN BAJA CALIFORNIA IN 2009: According to the press during the Easter Holiday "spring break", there were fewer tourists this year. Approximately 50,000 thousand tourist visited the beaches of Baja California, when last year's numbers reached more than 140, 000 thousand tourists thus affecting the sector in Baja California. (Tijuana)

¶16. (U) TOURISM FALLS 53 PERCENT DURING "SEMANA SANTA:" South-bound border crossings into Ciudad Juarez from the United States declined 53 percent year-over-year during the Easter holiday (Semana Santa), according to Chihuahua state tourism authorities. The representative for the Chihuahua State Tourism Department in

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Ciudad Juarez, Demetrio Sotomayor Cuellar, told local press that the local decline in tourism mirrors international trends, which have been impacted by the economic crisis. He denied that the drop in visitors is associated with the poor security environment. Cuellar estimated that Chihuahua lost \$US 2.5 million in tourism revenue as a result of the decline in travel to the state. (Ciudad Juarez)

AGRICULTURE

¶17. (U) TAMAULIPAS FARMERS CONTINUE TO LAMENT PROCAMPO REDUCTION: Agricultural organizations claim that the reduction of qualifying land for PROCAMPO subsidies from 200 hectares to 103 is an "injustice." In particular, seasonal farmers, such as the state's large contingency of sorghum farmers, are said to be most at risk as the lost subsidy income will harm investments in irrigation and other technology that can help reduce potential crop and financial losses in poor seasons. The director of the Local Agriculture Association of Matamoros, Refugio Leonel Soto Perez, also noted that the lost of roughly 50 percent of the subsidies received by larger farmers could threaten some farmers abilities to cover debts to creditors. Tamaulipas Governor Eugenio Hernandez Flores is also quoted as stating that Tamaulipas needs the federal support to continue in its role as the nation's agricultural leader and that

the subsidy loss would be a severe blow to food production in Mexico. The subsidy reduction represents an estimated loss of 250 million pesos for Tamaulipas farmers. (Matamoros)

¶18. (U) AGRARIAN REFORM: The Federal Attorney General for agricultural issues in Nuevo Leon (Procuraduria Agraria) is actively working to attract foreign capital to the rural sector. Private investors have been reluctant to invest in ejidos and communally owned properties because of onerous ownership and rights issues but now the federal government is backing private investments to overcome these hurdles. A major local issue is the unavailability of large unused tracts of land in the Monterrey area. (In contrast, the federal government has been crucial in getting multiple property owners together to combine their properties for large scale industrial development.) The Procuraduria Agraria in Neuvo Leon has a 2009 goal of creating 42 new investment projects, improving 6,758 hectors of land and attracting US\$1.5M in new investment. (Monterrey)

BASSETT